

MONTHLY NEWS UPDATE FROM RFE – April 2004

for Primorsky Krai, Chukotka, Magadan, and Kamchatka

Author: Oksana Guselnikova, Vladivostok BISNIS Representative

This report contains the following information on the RFE:

- Primorsky Krai: Ports, Transportation, Wood, Fisheries, Oil and Gas
- Chukotka: Transportation, Oil & Gas
- Magadan: Oil and Gas
- Kamchatka: Natural resources

PRIMORSKY KRAI

Transportation/Ports

** Commercial Port of Posiet (Primorye) gains a major shareholder*

“Steel Group Mechel” acquired shares of Commercial Port Posiet from JSC “Siberian Coal Energy Company” and is close to become a majority owner. Posiet is the fourth largest sea port in the RFE, and its cargo turnover increased by 37 % in 2003 over 2002, amounting to 834, 000 tons. This year the port expects to handle 1 million tons of cargo, which mainly consists of metal, containers and coal (*Source: Vostok Media*).

** Shares of Magadan Marine Commercial Port to be sold by an action*

25.49% of shares of Magadan Marine Commercial Port will be sold by an open auction. The offer consists of 21,365 nominal shares with a face value of 1 rouble. Initial price of the offer amounts to 43 443,000 roubles (*Source: Vostok Media*).

** Marine Port Zarubino announces a new owner*

Marine Port Zarubino announced a new owner—LLC TransGroup AC, one of the largest railway transportation companies in Russia. TransGroup operates more than 8,000 containers and its yearly volume of cargo transportation amounts to 30 million tons. Until recently, China continuously expressed interest in long-term lease of Zarubino port facilities for the routing of its exports to USA, Canada, and Japan through the Russian port. However, in April 2003, the Ministry of Transportation denied China’s request for the long-term port lease and emphasized the intentions to maintain control over the RFE ports. Marine Port of Zarubino specializes in export of metal and wood, as well as import of Japanese autos. New shareholders announced plans to drastically increase the cargo turnover, which will require extensive renovation and construction of the port facilities (*Source: Zolotoi Rog*).

** Vostochnii Port, Nakhodka, increases cargo turnover*

In January-March 2004 Vostochnii Port cargo turnover increased by 21.4 % compared to the same period of 2003. “International Container Service” company, the container terminal of the port, increased the volume of container handling by 62%, up to 64, 880 TEU. Overall volume of the cargo handled by the port increased by 12.7 % and exceeded 1,323 million tons (*Source: Vostok Media*).



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** FESCO and Russian Railway company to establish a JV*

According to the president of OJSC Russian Railway, Gennadii Fadeev, Russian Railway and Far Eastern Shipping Company (FESCO) are planning to establish a joint venture on container transportation. The venture is expected to start operations in the second half of 2004. Participating sides will equally (50% each) share ownership in the new venture. According to experts, the new partnership looks very promising, however, a great deal of work still needs to be done. For instance, FESCO specializes in handling 40-foot containers while the majority of railway stations can only fit one 40-foot container and mainly work with 20-foot containers. For an effective cooperation, this problem needs to be addressed and worked out (*Source: VostokMedia*).

** Far Eastern Shipping's net profits soar in 2003*

The Far Eastern Shipping Company (FESCO) net profits in 2003 amounted to 432.059 million rubles. The company's pretax profits increased by 18.8 times to 577.34 million rubles. As the company's press secretary explained, these dramatic increases were linked to overall higher freightage rates, strict control over all company spending and a significant reduction in the time its ships stood idle. The shipping company increased its assets by 19.6% to 4.719 billion rubles, while earnings dropped 20.7% to 5.513 billion rubles. The company revised its container cargo rates and clinched partnership agreements with a number of other cargo-haulers. FESCO is one of the largest shipping companies. It carries cargo from Far East ports to Chukotka, Magadan, Sakhalin and Kamchatka, as well as South Korea, Japan, China, Taiwan, Vietnam, the United States (*Source: Interfax*).

** PRISCO signs contract for the construction of tankers*

Primorsk Shipping Corporation (PRISCO) has signed a contract with Hyundai Heavy Industries to build two tankers to be used in icy conditions in Baltics. The tankers will be built at the Hyundai Heavy Industries' shipyard in South Korea and will have deadweight of 166,000 tonnes each. PRISCO should deliver the vessels in 2007 (*Source: Vostok Media*).

** VladAvia receives a high aviation award*

Primorye aviation company VladAvia participated in a national competition of Aviation Companies – “Wings of Russia”—and received an award as an Aviation Company of the Year in its service category. “Wings of Russia” award is based on a variety of objective factors as well as expert opinions, and is recognized as one of the most professional awards for aviation companies (*Source: Vostok Media*).

Wood

* *Terneiles to receive FSC certification*

Largest wood company in Primorye “Terneiles” applied for FSC certification. Currently, Terneiles produces about 1 million square meters of wood and more than 100,000 sq.meters of wood materials annually. Once certification is received, Terneiles will be the first Russian company to offer certified wood in the Asian Pacific Region (*Source: Vostok Media*).

Fish Processing

* *The Governor announced the fishing strategy for the region*

On April 2, 2004, the Governor of Primorsky Krai, Sergei Darkin, organized a press conference after his trip to Moscow, where he participated in a meeting of the State's Council working group on the development of national fishing industry. Darkin informed the audience of his intentions to focus on fish-processing industry in the region, which will provide more jobs, eliminate pouching and will help the region gain competitive position in the international market. According to Darkin, Krai currently exports 80 % of seafood unprocessed. Thus, Darkin emphasized the need for renovation of the existing fish-processing plants and construction of new ones in the region. According to the governor, Primorye administration will develop a detailed plan and introduce it at the working group meeting to be held in Vladivostok on April 28 (*Source: Konkurent*).



www.primorskv.ru

* *Fish processing shows significant growth in 2003*

Despite the decrease in fishing quotas, fishing industry in Primorye exhibits a distinct increase in most of the economic indicators. In 2003 the volume of industrial output reached 14.6 billion roubles, while the volume of extracted seafood totaled 608, 400 tons. An average wage in the industry increased by 27 %. Primorye companies manufacture more than 300 product categories of seafood; some of which hold “100 best Russian goods” award (*Source: Konkurent*).

Oil and Gas

* *Eastern Siberia– Primorye Pipeline update*

A new pipeline project Taishet-Nakhodka will most likely replace Angarsk-Nakhodka project that didn't receive approval from the Ministry of Natural Resources. The new pipeline will be laid through Irkutsk, Chita and Amur regions, Buryatia, Jewish Autonomous Region, Khabarovsk and Primorski Krai. The pipeline will be 4, 000 km long and will have a capacity of 50 million tones of oil or 80 million tones of oil and gas, depending on the final route. The pipeline will allow for the export of oil both from the developed Siberian oil sites, as well as prospective reserves of the Eastern Siberia and Yakutia. Estimated costs of the project 10,75 billion USD. The final government approval of the pipeline route should be announced by the end of this year (*Source: Vostok Media*).

CHUKOTKA

Transportation

** Transaero to launch flights to Anadyr*

Moscow-based aviation company Transaero announced of its plans to launch flight to Chukotka. Starting May 2, Boeing 767 with the capacity of 200 passengers will operate 2 weekly flights to Anadyr, Chukotka. Until lately, Domodedovo Airlines has been the only company that provided air connection with Chukotka, which didn't meet the existing demand for the transportation services (*Source: Vostok Media*).

Oil and Gas

** Sibnefts extracts first oil in Chukotka*

Sibneft extracted first oil from the exploratory well at Verhne-Telekaskoe oil and gas site, located 130 km from Anadyr. At present, the proven reserves total 2,2 mil tons. Sibneft started exploratory drilling in Chukotka in 2001 and by now established 3 drilling wells. The company plans to apply 3D seismic exploration techniques for the two oil reserves in the region, which will allow to adjust the strategy for further oil dwells developments (*Source: Vostok Media*).

MAGADAN

Oil and Gas

** Auction on Magadan 1 and Magadan 2 shelf projects*

Working group consisting of government authorities, ecological and natural resources experts has been established in Magadan to work out terms and conditions for the auction on Magadan 1 and Magadan 2 continental shelf exploration. Prospective reserves of oil and gas on the shelf are believed to contain 1309,4 mln tons and 1188,4 bil sq.meters. The project's operators are OJSC Dalmorneftegeofizika and Moscow Institute of Oil and Gas –VNIIGNI. It is expected that the tender for Magadan 1 and Magadan 2 will be announced this year. The projects will be implemented under general tax conditions rather than PSA (*Source: Dalnevostochnii Kapital*).

KAMCHATKA

Natural Resources

** Geotehnologii wins a tender for nickel reserves exploration*

Kamchatka-based enterprise Geotehnologii won a tender for exploration of Kvinum-Kuvalorogskii area, rich in nickel deposits. At the final stage of the competition Geotechnologies was competing against Chinese XSL Metal Limited. The project is

expected to contribute 292, 577, 000 USD to the federal and regional budget (*Source: Vostok Media*).

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